



LMDC
Remember Rebuild Renew

**TESTIMONY OF
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PRESIDENT
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**BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON HOMELAND SECURITY
SUBCOMMITTEE ON MANAGEMENT, INVESTIGATION, AND
OVERSIGHT**

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Thank you for this opportunity to testify on the redevelopment and resurgence of Lower Manhattan.

LMDC was created following September 11th to help plan and coordinate the rebuilding of Lower Manhattan. We are a subsidiary of the Empire State Development Corporation, and our Board of Directors is appointed by the New York State Governor, George Pataki, and the New York City Mayor, Michael Bloomberg. Congress allocated \$2.783 billion of the \$21 billion total aid package to the LMDC for our efforts.

The scene in Lower Manhattan has changed so significantly in less than five years that people often forget what we faced in 2001. We suffered the unconscionable, tragic loss of 2,749 people at the World Trade Center on September 11th. On the days immediately following, I remember well how my own residential street, about a block from Ground Zero, was cordoned off; we had to enter our homes through military checkpoints. I witnessed moving vans lining the streets as residential vacancy rates soared as high as 50% in some buildings. And businesses were moving away, fearing Lower Manhattan would never again be a thriving commercial district. Sixty to 80,000 jobs disappeared, along with 10 million square feet of office space at the World Trade Center site, and Lower Manhattan slipped from the third to the fourth largest central business district in the country. These are the negative images, tough conditions, and dire predictions that, for those of us who live and work downtown, were part of our daily experience. And these are the images, conditions and predictions that, in the aftermath of 9/11, were broadcast across the world.

As a result, there were some who questioned whether it would ever be possible to truly recover. Yet in less than five years since September 11th we have already seen significant progress. We've witnessed the construction and opening of 7 World Trade Center – the last building to fall on September 11th and the first to rise again. A block away, Goldman Sachs is building its world headquarters right next to American Express and Verizon, who remained downtown, determined that it would be rebuilt. Inside the World Trade Center site, the construction of the World Trade Center Transportation Hub is under way, as is the site preparation for the Memorial and the construction of the Freedom Tower. Surrounding the World Trade Center site, the West Street Southern Promenade (a remade portion of the highway that abuts the site) opened to the public last week, and the new Fulton Transit Center is under construction – along with other revitalization projects beyond the World Trade Center site. The value of construction now underway or soon to begin totals \$10 billion, with over \$20 billion to be invested over the next five years.

My testimony today will focus on the climate of accountability and control we have established at LMDC. In talking to you about our oversight and controls, I would like to outline our public process briefly, how it led to the establishment of our priorities, and how our controls have ensured integrity in the implementation of those priorities – and in the development of a revitalized 21st century central business district.

We take great pride that LMDC has led one of the most extensive public processes ever undertaken by a government agency. We believe our public process has been essential to ensuring our Federal funding is spent properly and on the most meritorious projects. We have held over 200 public meetings over the past five years. Some of those meetings have been broadcast live over the Internet, allowing people from around the world to view our planning activities and provide their comments and suggestions. All of our draft plans are subject to public comment and then revised to take that comment into account.

We have also held hundreds of meetings with community groups and advisory councils which represent the various communities impacted by September 11th and the rebuilding – including victims’ families, survivors, residential and business community leaders, elected officials, planners, architects, and other stakeholders. This remarkable level of public participation has been highly effective. It is impossible to create an agenda that pleases all constituencies all of the time – but what we have demonstrated is a public agency’s plans benefit from more rather than less public input and that a comprehensive outreach and feedback process lead to results that have credibility and, as a result, durability.

To begin, LMDC responded immediately to the public’s concerns about retaining and attracting residents and businesses. The program played a central role in restoring occupancy rates to more than 95%, as well as in spurring new investment. A survey of residents conducted by the Alliance for Downtown NY found that nearly 32% of all current residents living below Chambers Street had moved to the area between September 2001 and May 2003. Among those new residents, a majority – 51% - said LMDC’s grant had been a factor in their decision to move to Lower Manhattan. The program infused \$226 million in grants to more than 65,000 households. Battery Park City today boasts its highest occupancy rate in its history, and Lower Manhattan is the fastest growing residential market in the city.

To attract and retain businesses downtown, the LMDC also provided funding to ESDC, which administered a variety of grant programs and employee training assistance programs that played a major role in the promising commercial reports we see today. You will hear more about these programs from our ESDC colleagues, but I want to point out briefly that according to Cushman and Wakefield, more than 850,000 square feet of new leases were signed in Lower Manhattan during the fourth quarter of 2005 – and this figure does not include Goldman Sachs’ new 1.9 million square foot headquarters.

Following our immediate residential and business recovery efforts, LMDC made a conscious decision based on public input to use the remainder of our funds on investments that would drive long-term economic growth. We knew we would have to create conditions that would not only result in the restoration of the 60 to 80,000 jobs lost, but would also provide for a durable and vital environment that would ensure those jobs would be secured over the long term. Our plans emerged from public input and trends of cities around the world that indicated that successful central business districts are increasingly also vibrant, active live and work communities.

When we embarked on the selection of a Master Plan for the World Trade Center site, we began by holding public forums with live webcasts throughout the New York City regions. One of these forums – “Listening to the City” – brought more than 5,000 people together in one location to consider what should be built on the World Trade Center site. That process resulted in LMDC’s selection of Daniel Libeskind’s Master Plan in 2002 – a plan that continues to guide the rebuilding today. We believe the public input that drove this process was crucial to the Master Plan’s long-term viability. While the LMDC is not directly responsible for the construction of these buildings, we are proud that Libeskind’s Master Plan for the site has endured, and that it is well on its way to implementation.

The selection of the centerpiece of the site, the Memorial, was also the result of extensive public input. LMDC’s Families Advisory Council helped shape the principles upon which the design was

selected, and we held an open international competition in 2003. In a true testament to the extraordinary level of interest in the Memorial's creation, we received 5,201 submissions. A prestigious Memorial Jury selected the winner in January 2004 – a design called “Reflecting Absence.” We recently made modifications to the Memorial design and its companion museum to ensure that these important centerpieces of downtown will be delivered on budget and on schedule for opening on September 11, 2009, while remaining true to the vision selected in 2004. The Memorial must and will be a magnificent and fitting tribute to those we lost.

We are proud that all of our stakeholders played an important role in the creation of this moving tribute. A recent NY State Supreme Court decision found that the LMDC's public outreach on the Memorial has been “exhaustive and beyond anything required by law,” noting also that we have acted in a “commendable and sensitive manner.”

It was clear from the beginning of our planning and public outreach that making Lower Manhattan viable and attractive in the long term would require more than financial incentives and the rebuilding of the World Trade Center site itself. We realized we had to transform Lower Manhattan's neighborhoods to make them viable and attractive to residents and visitors – as well as competitive in the attraction of businesses in order to create the 21st century downtown I've referenced. For example, with our funding, over 20 park and open spaces have been either created or renovated. We have also provided funding for major projects like the downtown segment of Hudson River Park and the East River Waterfront which, together with Battery Park, will surround Lower Manhattan's shore lines on all three sides with over 10 consecutive miles of green spaces, boardwalks, esplanades, cultural activities, urban beaches, and active piers.

As another example of our off-site funding recipients, one of the hardest hit areas of Lower Manhattan after September 11th was Chinatown. Because of Chinatown's unique needs in the aftermath of September 11th, we hired a community liaison dedicated exclusively to this neighborhood, and created a Chinatown working group consisting of representatives of the neighborhood to determine what the community itself saw as its priorities. The LMDC acted quickly to kick off an award-winning tourism promotion campaign that has brought millions of new visitors to the neighborhood to shop, eat, and visit Chinatown's cultural institutions. We funded and launched several important initiatives in the Chinatown community, including:

- The community's first ever Local Development Corporation, a coordinating vehicle for the neighborhood's recovery
- a comprehensive Clean Streets Program– addressing the number one concern cited by Chinatown residents and businesses
- construction of the Chinatown visitor kiosk to guide newcomers to the neighborhood
- Major traffic and transportation plans to improve conditions created in part by post-9/11 security
- The rehabilitation of parks including Columbus Park and its historic pavilion
- Plans for a Chinatown arts center
- \$40 million in Residential Grant disbursements
- \$60 million in Business Recovery grants.

These are only a few of the LMDC's Chinatown initiatives, which taken together total more than \$170 million in funding commitments.

In Chinatown, the Lower East Side, and other areas of Lower Manhattan, we made a pledge that we would commit \$50 million of our funds to affordable housing – one of the largest allocations to

affordable housing by a government entity in recent years. We are proud to say we are living up to that commitment with five diverse projects that will generate and preserve nearly 3,000 units of affordable housing.

These particular projects offer just a glimpse of how our funding has addressed the needs voiced by the public. I'd now like to say a few words about how our funding is distributed, and the controls that guide our process. All of our activities are framed according to HUD rules, and as a result, the public and Congress have reviewed our plans through the Partial Action Plan process.

Once funding is allocated, we place enormous emphasis on ensuring that the money is spent properly. We have instituted seven layers of controls on our projects. An effective internal control environment starts with the tone set at the highest organizational level:

- At the LMDC, our Board of Directors provides oversight and clear direction to LMDC management. The Board itself consists of distinguished citizens – corporate executives, government officials, and community leaders. Following approval by the Board's Audit and Finance Committee, the full Board must approve every funding allocation. Our Audit and Finance Committee is Co-Chaired by Tom Johnson – the retired Chairman and CEO of GreenPoint Bank and GreenPoint Financial Corporation, and father of Scott Johnson, who was lost on September 11th – and Larry Babbio, the Vice Chairman and President of Verizon. Our Board has instituted private-sector style accountability by drawing upon their expertise in these matters and applying them to the operation of our agency.
- In addition to Board oversight, we have multiple layers of protections, beginning with day-to-day project managers and attorneys assigned to each project who not only craft the agreements but also monitor the projects throughout their implementation, ensuring recipients comply with all HUD and LMDC requirements and adhere to the program activities, budgets, and other requirements of the agreements.
- In addition to our Board and the project management structure, the third layer of oversight is provided by our compliance/monitoring department, which performs risk-based reviews on LMDC subrecipient relationships focusing on both HUD and LMDC compliance.
- A fourth level is provided by the LMDC's internal audit department, whose primary mission is to objectively evaluate and report on risks and control weaknesses. This department reports directly to the Board's Audit and Finance Committee, ensuring independence and promoting comprehensive audit coverage.
- In addition to our extensive internal controls, we also implement a variety of external measures. As a fifth level of oversight, LMDC retains external auditors to review LMDC's general purpose financial statements.
- A sixth level of oversight is provided by HUD's Office of Block Grant Assistance, which conducts semi-annual monitoring reviews of LMDC management's performance, concentrating on program compliance. To date HUD Monitoring has issued six reports. The last three reports identified no "Findings" or "Concerns" and noted that findings identified in the earlier reports were all resolved. In the last two reports, Mr. Richard J. Kennedy, Director, Office of Block Grant Assistance, commended LMDC on its "exemplary administration of its grant programs."
- The HUD Office of Inspector General provides the seventh oversight role, performing continuous audit procedures of LMDC and its major grants. These audit results are reported every six months to LMDC, the HUD Director of CDBG Grants, and Congress. HUD IG has dedicated four to eight auditors to review LMDC. To date they have issued six Audit

Reports the most recent of which identified one finding that has already been resolved with no monetary exposure to the LMDC.

In addition to these seven layers of oversight, review, and audit controls, LMDC established a department to conduct investigations and assist in the performance of background checks, and formulate policies to prevent or detect fraud or other criminal activity. This department was created by our former Chief Investigator, who is a former Assistant US Attorney; our General Counsel, herself a former Assistant US Attorney; and a former NYPD Detective of more than 20 years' experience, who continues to run the department today. The investigations staff also manages an external integrity monitor, a firm of professionals who review existing procedures and processes for fraud, corruption, cost abuse, safety, and environmental risks.

Although these are our standard, comprehensive procedures, we have customized procedures for particular programs when necessary. For example, in the Residential Grant Program, the LMDC proactively brought eight cases forward that were subsequently prosecuted by the U.S. Attorney's Office for the Southern District of New York. All defendants were charged in complaints with violations of federal law: (1) 18 U.S.C. Section 641 (fraudulent acceptance of federal funds) and 18 U.S.C. Section 1341 (mail fraud). The control mechanism in many of these cases was returned mail. As a further control, grant recipients were required to re-certify every six months.

We are proud that our controls have created an environment of integrity and have ensured that we operate a tightly-run organization. The HUD Office of Block Grant Assistance commends us in their reports "for successfully carrying out [our] commitment to high quality management of [our] grant programs." We believe that the LMDC can and will serve as a model to other agencies in other parts of the country. Two weeks ago, HUD Inspector General Kenneth Donohue testified before the U.S. Senate Homeland Security and Government Affairs Subcommittee on Federal Financial Management, Government Information, and International Security, stating, "I have seen the success of active monitoring efforts with 'monitors' used by the Lower Manhattan Development Corporation in preventing waste and fraud in post-9/11 rebuilding activities and I have testified previously to this effective concept for use in disaster relief efforts in the Gulf States."

In closing, I would like to thank the members of this Subcommittee and the United States Congress as a whole for your support for the post-9/11 rebuilding. We are confident that the public processes we implemented – in combination with our multi-layered approach to oversight, review, and audit – are ensuring that the public's funds are being managed with the utmost integrity – and with favorable results. During the next few years, the benefits of LMDC's investments are likely to be compounded, as the impact of major investments in developments underway at the World Trade Center site and transportation infrastructure build on the impacts of investments made before. Economic analysts have estimated that by 2025, the major development projects undertaken by the LMDC, drawing upon your \$2.8 billion in resources, will increase economic output in New York City by \$19.4 to \$21.4 billion annually, and increase employment by 98,700 jobs. If we take into account total program spending, including investments made in Lower Manhattan by our partner agencies and organizations, the ongoing impact in 2025 rises to \$23.2 to \$25.2 billion in annual economic impact, and 116,000 to 131,000 jobs. These investments will position Lower Manhattan as a thriving 21st century downtown, ensure that it serves as a key economic engine for the nation, and – indeed – secures its position as the financial capital of the world.

We thank you for your partnership in the mission of rebuilding and revitalizing Lower Manhattan.